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CALIFORNIA RESTAURANT OPERATIONS 1987

Laventhol & Horwath

1987 Edition

12TH ANNUAL REPORT ON RESTAURANT OPERATIONS IN CALIFORNIA

CALIFORNIA RESTAURANT OPERATIONS

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COMMENTS FROM AROUND THE STATE

From Costa Mesa/Orange County

Strong commercial development growth, a steadily increasing population and a low unemployment rate have created an environment conducive to restaurant growth. As a result, there has been a proliferation of foodservice establishments throughout Orange County in recent years.

Several restaurants that entered the market in 1986 are designed with more open space and plants, and are decorated with bright colors. These concepts reflect the most current design trends, and appeal to the fast-paced, generally upwardly mobile Orange County resident.

The establishment of restaurant boutiques or mini-malls, which feature six to ten quick foodservice outlets with differing themes, represents another Orange County trend. These boutiques are located in malls, strip centers near major office buildings, or in high-traffic shopping centers. Typically, each unit contains 800 to 1,000 square feet of space, with a common garden eating area.

A shortage of workers has resulted from the rapidly expanding restaurant industry and the low Orange County unemployment rate. Many operators are experiencing increasing difficulty in staffing their establishments with qualified individuals. Several common solutions include: hiring retired individuals, employing more part-time students and paying higher salaries. Recent changes in immigration laws have only worsened the problem.

For 1987, we anticipate a declining number of customers for restaurants with tired facilities and unchanged menus. Except for those theme upscale establishments that have provided superior service and menus, most restaurants must continually develop new and exciting menus, themes and facilities to maintain an image of superior price/value.

Boyd Lypka
David R. Kinkade
Costa Mesa

From Los Angeles

The Southern California restaurant market has maintained its vitality and diversity despite aggressive competition and numerous submarkets in the Los Angeles area. New concepts, including exotic cuisines from different countries and regions of the United States, and menu diversification continue to strengthen the market.

Southwestern decor and cuisine, and Caribbean and Asian influences are becoming widely accepted. Wholesome American food, from Southern fare to the continued expansion of the diner theme, has experienced popularity. The diner theme offers menu diversification, including the basic 1950's concept, upscale menus, and even a new Mexican variation.

In addition to new restaurants specializing in regional cuisines, another trend involves the blending of multiple ethnic and regional cuisines, which leads to eclectic menus. Southern California restaurants are offering more adventurous wine selections from regional and foreign wineries. The weakened Australian dollar has helped imported Australian wines become more affordable and desirable. As its wines receive greater recognition, Australia is gaining a refined image as a wine-making nation.

The Southern California market is expected to demonstrate continued strength. Taxable sales for Los Angeles County eating and drinking establishments rose at a rate of approximately 5.5 percent from 1985 to 1986. Los Angeles restaurateurs have again demonstrated their place in the forefront of the foodservice industry.

Janet Lowder
Janet Gora
Los Angeles

From San Diego

Restaurateurs continue to enjoy strong business in 1987. A healthy economic base, both locally and nationally, kept tourist- and locally-oriented restaurant volumes up. This trend has become more pronounced in the last few years with the commercial and residential development, particularly in the downtown, La Jolla and North County areas.

The 1985 opening of Horton Plaza continues to be a significant force in the gentrification of the central business district. Full-service, first-class hotels and high-rise office space complement the plaza's retail offerings, paving the way for numerous restaurants and unique fast-food outlets. Although lunch patrons comprise the primary market segment, dinner clientele is increasing.

The sophisticated uptown market is

located 20 blocks north of downtown and has experienced similar progress. Uptown's residential and commercial mix is inversely proportional to downtown. The commercialization of this historically residential area provides an eclectic backdrop for small, upscale restaurants; especially popular are theme restaurants featuring 1950s diner motifs and unique Asian cuisines.

Further north, from La Jolla to Oceanside, an affluent population base supports a booming restaurant growth. Tourists, who are willing to pay a premium in waiting-time and the average check to enjoy an ocean view while dining, enhance the strong local market. Weekday demand is strong, especially during the summer season; weekend demand, however, pushes the coastal market to capacity. Although authentic Mexican cuisine and fresh seafood comprise this market's main offerings, Thai, Vietnamese, and Japanese fare are becoming increasingly popular.

The San Diego restaurant industry can expect increases in customer counts in 1987, reflecting the projected growth in population, income, commercial development and tourism.

Peter Anderson
San Diego

From San Francisco

The San Francisco restaurant market continues to be one of the most dynamic and competitive in the nation. The diverse cultural influence of the Bay Area's population is reflected in its restaurants. Large numbers of foodservice establishments offer Asian, Italian, Mexican and other ethnic cuisines. Competition remains fierce, with approximately 4,600 restaurants in the city and county of San Francisco.

In addition to the highly competitive market, San Francisco restaurateurs must also contend with skyrocketing rents, lack of adequate parking within the city and customer perceptions regarding the AIDS epidemic. These factors have contributed to the increased development of restaurants in alternative high-growth areas within the nine county Bay Area region.

Considering these constraints, taxable sales for eating and drinking establishments within the city and county of San Francisco grew at a minimum rate of 1.6 percent from 1985 to 1986. The number of meals eaten away from home continues to increase with dual-income families' desire for convenience. With the growth of restaurants in outlying communities meeting this need, the demand for food and beverage—especially during the evening meal—at San Francisco establishments has decreased. This trend has an impact on San Francisco restaurateurs and specifically Financial District operators, who struggle to meet fixed costs, e.g. rent, relying on only one meal period.

One idea recently introduced to the San Francisco restaurant market, the 1950s diner, has proven successful for several Bay Area operators. The diner concept, which offers a 1950s atmosphere, varied menu selections and reasonable pricing, should demonstrate continued success and strengthen San Francisco's excellent reputation for innovation.

The redevelopment of the area south of Market Street has brought many new additions to the San Francisco restaurant market. Several restaurateurs have transformed warehouses into interesting new restaurants and dance clubs. The creativity associated with these low-cost concepts has enhanced the area's popularity. With the expansion of the Moscone Convention Center and the overall revitalization of this former industrial district, the growth of these and other exciting concepts should preserve San Francisco's reputation as an industry trendsetter.

Jeffrey Biales
Susan Kennedy
San Francisco

INDUSTRY LEADERS ADDRESS KEY ISSUES

Each year, Laventhol & Horwath selects a few sub-segments of the California restaurant industry and solicits the opinions of respected operators on key issues. This year, we selected the fine dining and contemporary theme subsegments. Issues discussed included impact of minimum wage, shifts in drinking habits, perceived price sensitivity, new trends and present business volume.

Operators who commented on minimum wage effects believe the proposed increase would have a negative impact on California restaurants. For example:

"If passed, it will be very difficult to raise prices to offset the increase. It would trim 1.5 to 2.0 percentage points off the bottom line if no price increase can be passed on—perhaps worse."

Nancy Mootz
Director of Operations
Kuleto's (contemporary theme)
Masa's (fine dining)
San Francisco

"Will end up driving the weaker operations out of business."

Ron Salisbury
Owner
Sonora Cafe
(contemporary theme)
Los Angeles

With respect to drinking habits, there was considerable agreement on an increase in premium wine sales:

"Definite trend toward drinking California Chardonnays. Beer and wine sales are biting into hard liquor sales."

Michael Vucurevich
General Manager
The Cheesecake Factory
(contemporary theme)
Marina del Ray

"Customers are consuming more wine than ever and more premium varietals are being asked for by the customer."

Wayne Judah
Manager
The Admiral Risty
(contemporary theme)
Palos Verdes

With regard to price sensitivity of clientele, fine dining respondents offered divided opinions:

"Eighty percent don't look at price, 20 percent might observe price a little."

Giovanni Mancini
Manager
Cardini Restaurant, Hilton Hotel
Los Angeles

"There is none."

Jean-Jacques Retourne
Manager
Citrus
Los Angeles

"Very sensitive—particularly parties."

Dr. Patrick Bertranou
Owner
L'Ermitage
Los Angeles

"Fairly insensitive. We have raised our prices 8 percent and have seen a similar increase in check average with no decline in covers."

Nancy Mootz
Director of Operations
Masa's
Kuleto's
San Francisco

Several operators commented on what they consider to be significant trends and developments. Citrus' Jean-Jacques Retourne commented that "people like more casual dining, not formal. That involves 'clean food'—reduction sauces opposed to butter based, and fresh, locally produced food." Echoing that sentiment, L'Ermitage's Patrick Bertranou added, "A very expensive restaurant must adapt—less formal, more casual, more affordable."

Kuleto's Mootz noted that "more shared plates and meals built of appetizers and desserts. They spend the same amount they used to on a salad and entree."

With respect to increases in business, there was no clear consensus, but a majority of these interviewed felt that meal occasions increased over a year ago.

L&H's Significant Predictions

Each year, L&H's restaurant specialists make a few key predictions, pointing to significant trends that they believe are just beginning to become visible in California's restaurant industry. It is our purpose to both provide a "report card" on previous predictions as well as to provide significant new ones.

Previous Predictions

A year ago, L&H made three predictions:

"*You Can Only Get It Here.*" Whether it's new combinations of ingredients, or contracting for all of a farmer's production, an increasing percentage of restaurants will be concentrating their marketing appeal on signature products and uniqueness. The ultimate may be new hybrid vegetables and crossbred game birds that bear the sponsoring restaurant name.

Update 1987: Trend is intensifying, but has not yet approached its expected manifestations.

"The Aussies are Coming." The love affair with everything Australian will spread to a proliferation of Australian-themed restaurants and pubs. Because Australia's cuisine does not rank high on the list of "world's best," the emphasis will be more on fun than food. An Australian win in the America's Cup (not part of our prediction) would intensify this trend.

Update 1987: Despite the loss of the America's Cup, significant Australian restaurant development has taken place—particularly in San Francisco and Los Angeles. A pleasant surprise has been that the quality of the cuisine and the artistry of the menu has been much better than anticipated.

"The Customer Is King." Many more restaurants will take on many aspects of private clubs in an attempt to differentiate themselves in the customer's mind. This philosophy is likely to take the form of preferred customer lists, restaurant charge cards, and use of computers to track individual customer's preferences, birthdays and other key dates.

Update 1987: Has largely materialized in the market.

New predictions

"Managing 'Moments of Truth.'" From fast food to fine dining, restaurant companies are realizing that service can be treated as a set of philosophies, controls and systems. "Service management," the science of managing the hundreds of interactions ("moments of truth") between customers and employees, will become one of the hot industry topics by the end of 1987.

"Creative Occupation Cost Approaches." With good sites expensive and progressively more difficult to find, and building costs high, many or most new restaurants will be built using some form of site sharing. Site sharing will take the form of two or more restaurant concepts sharing common kitchens, dining areas or parking. In the best matches, the two or more concepts' peaks will be at different times of the day.

EXPLANATION OF TERMS*

Food sales

This category includes revenue derived from the sale of food in the restaurant. Food sales also include the sale of coffee, tea, milk and fruit juices, which usually are served as part of a meal. If there is no service of liquor, beer or wines, the soft drink sales also would be included in this category.

Beverage sales

This category includes revenue from the sale of wine, spirits, liqueurs, beer, ale and soft drinks. These sales do not include coffee, tea, milk or fruit juices, which normally are served with meals and, therefore, are considered food.

Prime cost

Prime cost is the total of the following: cost of food sold, cost of beverage sold and the associated payroll costs and employee benefit expenses.

Payroll

This category includes the regular salaries and wages, extra wages, overtime, vacation pay and any commission or bonus payments made to employees. The entire restaurant payroll generally is included under this category.

Employee benefits

This category includes Federal Retirement (Social Security) Tax (FICA), Federal and State Unemployment Taxes and State Health Insurance Tax. Other items considered benefits are Workmen's Compensation Insurance Premiums, Welfare Plan Payments, Pension Plan Payments, Accident and Health Insurance Premiums and Hospitalization, Blue Cross, Blue Shield and Group Insurance Premiums. Also listed under employee benefits are education expenses, Christmas parties, employee sports activities, credit union, awards and prizes, and transportation and housing.

Earnings ratio

The earnings ratio is calculated by dividing an operation's income or loss before income tax by its total sales.

Productivity index

The productivity index is calculated by dividing a restaurant's total sales by its total payroll.

Direct operating expenses

Expenses directly involved in providing service to the customer, such as uniforms, laundry, linen, china, and cleaning and paper supplies are considered operating expenses. Also included are utensils, kitchen fuel, menus and drink lists, flowers and decorations, contract cleaning, auto or truck expense, parking, and licenses and permits.

Advertising and promotion

This group of expenses includes selling and promotion expenses, such as direct mail and entertainment costs in promotion of business (including gratis meals to customers). Also, the cost of advertising through newspapers, magazines or trade journals; outdoor signs and radio and television are included. Public relations and publicity (including fees and commissions to advertising or promotional agencies) and franchising fees and royalties are found in this category.

Utilities

This section is comprised of the cost of all fuel except that charged to direct operating expenses in the account "kitchen fuel." Water, ice and refrigeration supplies and the removal of waste are also included. The cost of oils, boiler compound, fuses, grease and other supplies plus any small tools used in the operation or maintenance of the mechanical and electrical equipment should also be charged to this account.

Administrative and general

This group of expenses is commonly considered "overhead," and includes items that are necessary to the operation of the business rather than those connected directly with the service and comfort of the customer. This account should be charged with the cost of all printed matter not devoted to advertising and promotion, such as accounting forms, account books, restaurant checks, office supplies, cash register and other checking supplies, letterheads, bills and envelopes. All postage, except amounts applicable to advertising should be charged here. The cost of telephone equipment rental, local and long distance calls and telegrams should be charged to this account with the exception of calls chargeable to marketing. Other items charged to this account are management fees, data processing costs, dues and subscriptions and insurance costs (other than those included as employee benefits or fire and extended coverage on the premises and contents). Commission on credit card charges, collection fees, cash shortages, professional dues and protective services are also considered A & G expenses.

Repairs and maintenance

The following items are repairs and maintenance expenses: painting and decorating; plastering; upholstering; mending curtains; and maintenance contracts on elevators, signs and office machinery. Repairs to dining room furniture, refrigeration, air conditioning, buildings, floors, plumbing and heating are charged to this category as well. Repairs to dishwashing and sanitation equipment, kitchen equipment and office equipment are also included here.

Occupation costs

These expenses, together with interest and depreciation charges, are the costs of readying the premises for operations. These are sometimes called "fixed charges" since they usually are determined by the financial setup of the restaurant and not by the trend of its business. Rent, taxes and property insurance are occupation costs.

*The definitions and examples have been taken from *Uniform System of Accounts for Restaurants*, 1983 revised edition.

CALIFORNIA RESTAURANT INDUSTRY—1986

by Elizabeth Ann Rifkin
Research Division
Philadelphia, Pennsylvania

Introduction

For the twelfth consecutive year, Laventhol & Horwath has conducted a survey of the California restaurant industry. This report presents financial statistics for 194 restaurants based upon:

- Net income differential—properties reporting a net profit or a net loss.
- Number of years in operation—under 5 years, 5 to 10 years, or more than 10 years.
- Sales volume—less than $1 million, $1 to 2 million, or over $2 million.
- Beverages served—full liquor service, wine and/or beer, no alcoholic beverages.
- Type of restaurant—full menu with tableservice, limited menu with tableservice, or limited menu with no tableservice.
- Menu theme—steak/seafood, ethnic, American, or sandwich/hamburger.

The reader is cautioned that the operating results and percentages should not be considered standards for the industry, nor are they an attempt by Laventhol & Horwath to set or conform goals. Rather, they should be utilized only as a guide when analyzing operating results of a specific establishment. As the sample of contributing restaurants changes slightly each year, some variation in financial results are a function of these changes.

For those not familiar with industry terminology and the accepted methods for calculating operating ratios, we have included an appendix entitled, "Analyze Your Operation," which explains the various computations, and an article, "Explanation of Terms," which defines industry terminology. We refer the reader to the *Uniform System of Accounts for Restaurants*, published by the National Restaurant Association, for additional information concerning the terminology and structure of the restaurant accounting system.

Bases of Analysis

This study encompasses a wide variety of restaurants. In many cases, results are given for the entire sample of 194 establishments; in others, each of the various breakdowns is analyzed. The comments and exhibits in this report are presented in amounts per seat and ratio to total sales, common bases of measurements in the industry. The number of seats includes those in public dining areas, bars and lounges, and banquet facilities. The cost of food and cost of beverage figures are presented as ratios to individual department sales, providing more significance to restaurant operators. This report primarily contains figures that are medians, except for Chart 1, "The California Restaurant Industry Dollar," which is based upon the weighted mean. The median value presented is the middle value of all responses when the data is arranged in sequential order. Therefore, half of all responses are greater and half are lower than the figure presented.

Each line item has been analyzed separately, and the results are based upon the information submitted for that line only, since all of the restaurants in this sample did not report data for each line.

Operating Results

Chart 1 illustrates the source and distribution of the revenue dollar for participating restaurants. No comparison with the previous year's figures is presented, due to a change in the method for computing the weighted means. In 1986, food sales accounted for almost 76 percent of every dollar received. Food and beverage costs totaled 32.1 percent, and payroll accounted for 26 percent of each outgoing dollar.

The majority of participating restaurants have been in business for more than 10 years, are located in urban and suburban areas and provide a full liquor service. The median average check—$11.04—was notably higher compared with last year's figure of $10.29. Additionally, the median average daily seat turnover also rose in 1986 to 1.84 compared with 1.78 in 1985. The earnings ratio, which is calculated by dividing an operation's income or loss before income tax by total sales, remained fairly constant at 6.4 percent.

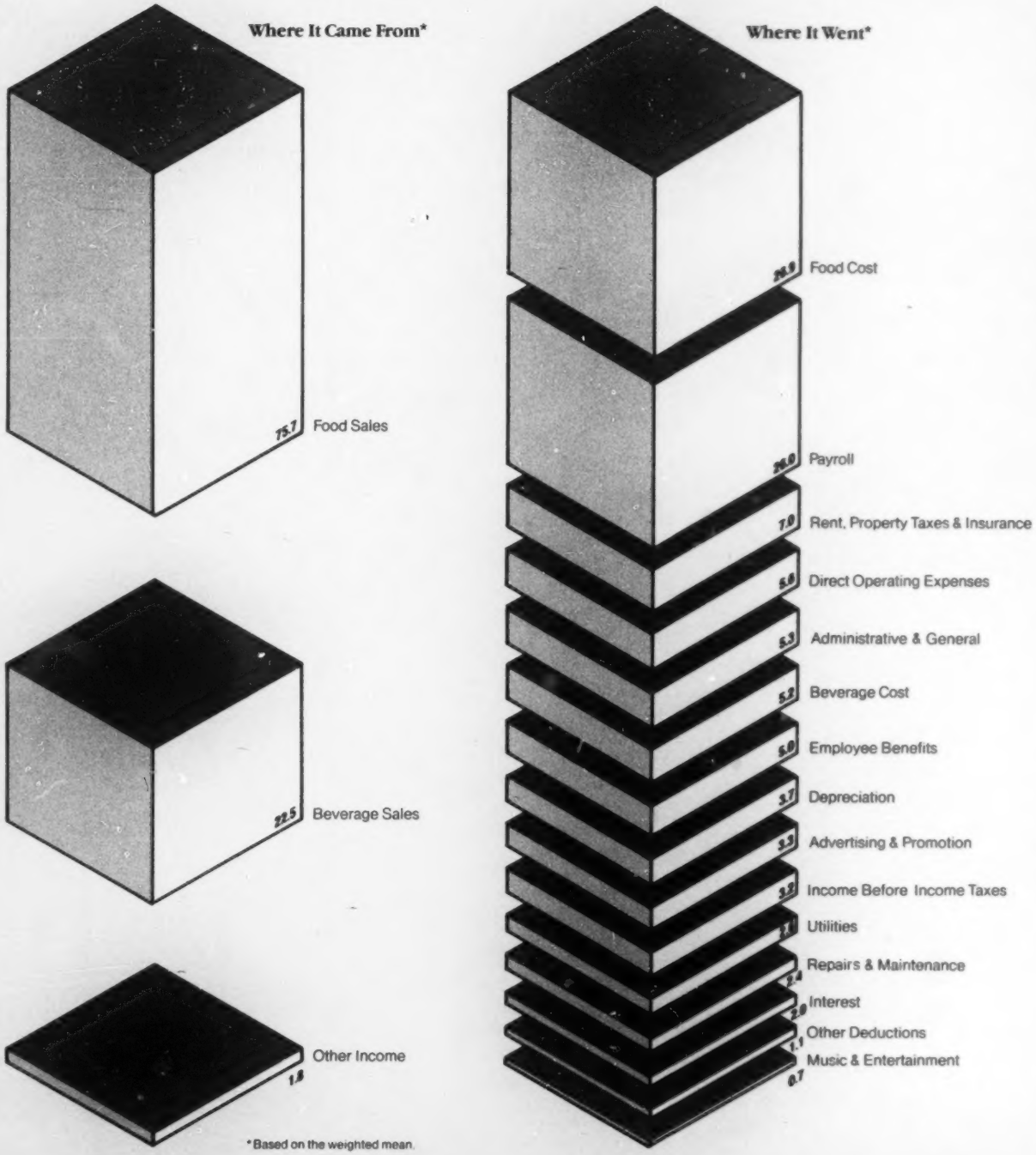
Total sales per full-time equivalent employee rose 1.8 percent from 1985 to $35,216 in 1986. However, the index of productivity, which is calculated by dividing the restaurant's total sales by its total payroll, dropped from 3.39 percent in 1985 to 3.23 percent in 1986. This resulted from total payroll per full-time equivalent employee increasing at a higher percentage rate than did total sales. The median prime cost, which is the total of food, beverage and payroll costs, declined 5.7 percent to 62.8 cents in 1986.

Based upon all participating restaurants, total gross profit as a ratio to total sales increased 4 percent to 68.2 percent in 1986. Although total controllable expenses and occupation costs increased from 1985, restaurant profit was still greater at 7.3 percent compared with 6.4 percent in 1985. More details about this information and various breakdowns can be found in this study.

Those familiar with the California Restaurant Operations reports may note that there are no comparisons with total U.S. figures. This is due to format change in *Restaurant Industry Operations Report* '87. However, comparing this year's results with those in earlier reports may allow the reader to identify general trends such as increases in controllable expenses or fixed charges.

Chart 1

The California Restaurant Industry Dollar



* Based on the weighted mean.

Exhibit 1
Composition of Participating Restaurants

Years in Business:	Percentage of Respondents
Under 5 Years	24.2%
5 to 10 Years	17.5
Over 10 Years	40.7
Not Reported	17.6
Type of Restaurant:	
Full Menu—Tableservice	51.6%
Limited Menu—No Tableservice	16.5
Limited Menu—Tableservice	6.7
All Others	7.7
Not Reported	17.5
Location:	
Urban	35.6%
Suburban	37.1
Rural	9.3
Not Reported	18.0
Affiliation:	
Single Unit—Independent	29.4%
Multi-Unit—Company Operated	35.6
Multi-Unit—Franchisee Operated	14.4
Not Reported	20.6
Meals Served:	
Lunch and Dinner Only	47.4%
All Meals	25.3
All Others	8.7
Not Reported	18.6
Sales Volume:	
Under $1 Million	39.2%
$1 Million–$2 Million	30.4
Over $2 Million	30.4

Profit Versus Loss:	Percentage of Respondents
Net Profit	59.3%
Net Loss	20.6
Not Specified	20.1
Building Located in/Attached to:	
Hotel/Motel	12.4%
Shopping Center/Mall	16.5
Sole Occupant	41.2
All Others	11.9
Not Reported	18.0
Lease Versus Own:	
Own Land and Building	18.6%
Lease Land and Building	50.5
Lease Land and Own Building	6.2
Not Specified	24.7
Ownership:	
Sole Proprietorship	11.9%
Partnership	10.3
Public Corporation	13.9
Private Corporation	46.4
Not Reported	17.5
Menu Theme:	
Steak/Seafood	22.2%
American	17.5
Sandwich/Hamburger*	12.9
Ethnic**	20.6
All Others	7.7
Not Specified	19.1
Beverages Served	
Full Liquor Service	49.5%
Wine and/or Beer Only	20.1
No Alcoholic Beverages	12.9
Not Reported	17.5

*Includes sandwich/hamburger, pizza, subs and deli.
**Includes Italian, Mexican and Oriental.

Characteristics

- Full menu-tableservice restaurant more than 10 years old.
- Median sales volume of all respondents was $1.4 million.
- The median size of each participating restaurant was 5,000 square feet, almost 59 percent of which was dining area.
- The median number of seats per restaurant operation in this year's survey was 181.
- The typical operation earned a profit and offered full liquor service to its patrons.
- Participants in this year's survey were typically company owned and operated, and part of a private corporation.

Highlights

- Food sales were $6,667 per seat while beverage sales accounted for $1,340 per seat.
- Median total food and beverage costs were $2,631 per seat.
- The median check was $11.04 and the average daily seat turnover was 1.84.
- Restaurant profit was 7.3 percent in 1986.
- Total sales per full-time equivalent employee was $35,216 with a productivity index of 3.23.

Exhibit 2
Average Check

	Lower Quartile	Median	Upper Quartile
All California Restaurants	$6.27	$11.04	$21.17
Age			
Under 5 Years	$6.08	$10.93	$21.58
5 to 10 years	4.28	9.77	21.47
Over 10 Years	6.99	12.17	21.17
Location			
Urban	$5.89	$11.24	$22.14
Suburban	6.28	11.14	21.17
Rural	4.34	9.44	21.21
Meals Served			
Lunch & Dinner Only	$6.06	$10.91	$20.09
Dinner Only	**	24.82	**
All Meals	7.10	11.21	22.25
Menu Theme			
Steak/Seafood	$8.69	$11.78	$20.73
American	5.36	8.80	16.33
Ethnic	4.52	9.79	16.71
Sandwich/Hamburger	4.20	7.08	13.97
Beverages Served			
Full Liquor Service	$9.75	$13.72	$22.71
Wine and/or Beer Only	4.44	7.46	12.36
No Alcoholic Beverages	3.96	4.72	7.96
Profit Versus Loss			
Net Profit	$6.04	$10.63	$16.38
Net Loss	8.51	20.09	23.21
Type of Restaurant			
Full Menu—Tableservice	$9.01	$12.85	$22.66
Limited Menu—No Tableservice	3.94	5.43	10.58
Limited Menu—Tableservice	5.02	7.49	9.56
Building Located In/Attached To:			
Hotel/Motel	$8.65	$12.78	$22.25
Shopping Center/Mall	6.28	9.15	20.09
Sole Occupant	6.04	11.30	21.78

**Insufficient response.

Exhibit 3
Average Daily Seat Turnover

	Lower Quartile	Median	Upper Quartile
All California Restaurants	0.86	1.84	3.88
Age			
Under 5 Years	1.11	2.84	4.98
5 to 10 Years	1.05	3.27	5.56
Over 10 Years	0.67	1.44	2.13
Location			
Urban	1.05	1.83	4.06
Suburban	0.57	1.96	3.74
Rural	0.61	1.49	5.10
Meals Served			
Lunch & Dinner Only	1.14	2.05	4.51
Dinner Only	**	1.15	**
All Meals	0.48	1.24	2.62
Menu Theme			
Steak/Seafood	1.05	1.92	3.73
American	1.14	2.35	5.94
Ethnic	0.52	1.33	4.10
Sandwich/Hamburger	1.48	2.92	5.56
Profit Versus Loss			
Net Profit	1.44	2.78	4.90
Net Loss	0.60	1.13	2.28
Type of Restaurant			
Full Menu—Tableservice	0.71	1.42	2.80
Limited Menu—No Tableservice	1.78	3.74	8.63
Limited Menu—Tableservice	1.34	4.31	6.96
Beverages Served			
Full Liquor Service	0.71	1.43	2.23
Wine and/or Beer Only	1.20	3.39	5.92
No Alcoholic Beverages	5.25	5.94	8.63
Building Located In/Attached To:			
Hotel/Motel	0.23	0.67	1.09
Shopping Center/Mall	1.23	2.05	3.74
Sole Occupant	1.24	2.91	4.57

**Insufficient response.

Exhibit 4
Sales Per Square Foot

	Lower Quartile	Median	Upper Quartile
All California Restaurants	$193	$281	$378
Age			
Under 5 Years	$196	$281	$398
5 to 10 Years	227	277	385
Over 10 Years	149	283	376
Type			
Full Menu—Tableservice	$159	$267	$373
Limited Menu—No Tableservice	225	285	351
Limited Menu—Tableservice	184	298	430
Sales Volume			
Under $1 Million	$147	$213	$285
$1 Million-$2 Million	198	296	390
Over $2 Million	287	377	443
Beverages Served			
Full Liquor Service	$149	$242	$376
Wine and/or Beer Only	203	277	384
No Alcoholic Beverages	282	319	424
Location			
Urban	$194	$277	$385
Suburban	200	302	379
Rural	130	216	356

Exhibit 5
Earnings Ratio

	Lower Quartile	Median	Upper Quartile
All California Restaurants	(0.2%)	6.4%	12.7%
Age			
Under 5 Years	(2.3%)	7.0%	12.7%
5 to 10 Years	(1.6)	6.2	14.3
Over 10 Years	1.4	8.0	13.6
Location			
Urban	1.4%	7.1%	13.6%
Suburban	0.8	9.1	13.7
Rural	(1.7)	0.1	11.0
Restaurant Located In/Attached To:			
Shopping Center/Mall	(1.9)%	6.7%	12.1%
Sole Occupant	2.3	9.3	14.0
Type of Restaurant			
Full Menu—Tableservice	(2.7%)	3.9%	9.4%
Limited Menu—Tableservice	3.2	10.2	13.9
Limited Menu—No Tableservice	7.1	12.7	22.4

Exhibit 6
Number of Employees*

	Number of Employees Per Restaurant		
	Full-Time	Part-Time (20–35 Hours)	Part-Part-Time (Under 20 Hours)
All California Restaurants	15.0	10.0	5.0
Profit Versus Loss			
Net Profit	15.0	10.0	7.0
Net Loss	15.0	9.5	5.0
Location			
Urban	17.0	10.0	5.0
Suburban	13.5	8.5	5.0
Rural	15.0	10.0	5.0
Type of Restaurant			
Limited Menu—No Tableservice	**	**	**
Full Menu—Tableservice	15.0	10.0	5.0
Limited Menu—Tableservice	15.0	8.5	**
Menu Theme			
Steak/Seafood	20.0	10.0	5.0
American	10.0	9.0	5.5
Ethnic	16.0	10.0	4.0
Sandwich/Hamburger	14.5	7.0	5.0

*All amounts are medians.
**Insufficient response.

Exhibit 7
Employee Information*

	Full-Time Equivalent Employees			Amount Per Full-Time Equivalent Employee		
	Total	Per 100 Restaurant Seats	Per 100 Average Daily Covers	Total Sales	Total Payroll	Index of Productivity
All California Restaurants	37.1	22.4	12.3	$35,216	$10,701	3.23
Profit Versus Loss						
Net Profit	31.3	26.9	9.5	$38,475	$10,214	3.67
Net Loss	37.0	20.6	17.0	32,688	12,346	2.57
Location						
Urban	35.0	23.1	12.7	$33,089	$10,675	3.46
Suburban	35.3	22.5	12.1	38,276	11,164	3.85
Rural	53.8	17.9	12.8	28,749	10,214	3.09
Type of Restaurant						
Limited Menu—No Tableservice	22.5	23.0	5.2	$34,127	$ 9,005	4.41
Full Menu—Tableservice	48.8	22.0	14.3	34,237	11,393	3.04
Limited Menu—Tableservice	17.9	25.2	6.2	39,151	9,895	4.01
Menu Theme						
Steak/Seafood	43.8	22.4	14.3	$36,453	$11,164	3.50
American	22.5	30.8	11.1	37,528	9,693	3.83
Ethnic	32.5	14.7	10.8	33,778	11,393	2.98
Sandwich/Hamburger	42.0	20.0	7.8	32,958	9,721	4.08

*All amounts are medians.

Exhibit 8
Cost Per Dollar of Sales*

	Food Cost**	Beverage Cost**	Total Cost of Sales	Total Payroll	Prime Cost
All California Restaurants	34.7¢	25.2¢	32.6¢	30.9¢	62.8¢
Location					
Urban	33.3¢	24.5¢	32.6¢	29.0¢	62.7¢
Suburban	35.8	23.8	33.8	27.1	61.3
Rural	39.7	34.7	36.9	32.6	69.9
Menu Theme					
Steak/Seafood	37.2¢	23.8¢	35.6¢	28.2¢	61.9¢
American	36.3	23.7	36.0	25.0	61.9
Ethnic	33.3	24.6	32.1	33.6	64.2
Sandwich/Hamburger	26.4	25.7	26.1	25.1	52.6
Age					
Under 5 years	36.0¢	28.2¢	36.0¢	25.6¢	62.1¢
5-10 years	35.6	25.6	34.4	28.5	62.0
Over 10 years	33.8	23.3	32.1	31.6	63.0
Profit Versus Loss					
Net Profit	35.4¢	25.2¢	33.3¢	27.3¢	60.6¢
Net Loss	34.1	26.5	32.5	40.0	73.4
Type of Restaurant					
Full Menu—Tableservice	35.2¢	24.1¢	33.1¢	32.8¢	66.5¢
Limited Menu—Tableservice	36.0	***	36.0	24.6	59.6
Limited Menu—No Tableservice	32.6	28.2	32.6	22.7	57.1

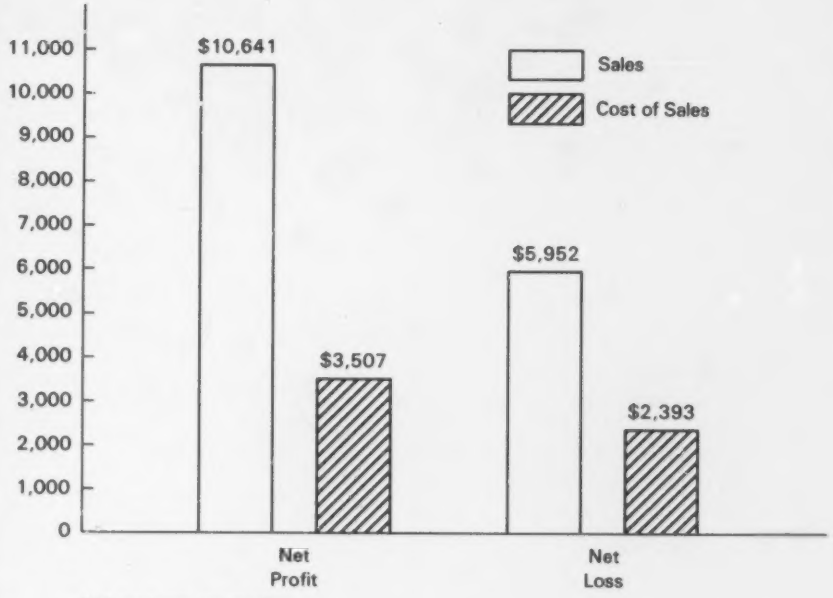
*All amounts are medians and do not necessarily add to totals shown.
**Based on individual department sales.
***Insufficient response.

Exhibit 9
Occupancy Costs, Interest and Depreciation—Amount Per Seat*

		Type of Restaurant			Location			Sales Volume		
	Total Calif.	Limited Menu—No Tableservice	Full Menu—Tableservice	Limited Menu—Tableservice	Urban	Suburban	Rural	Under $1 Million	$1 Million–$2 Million	Over $2 Million
Rent	$543	$730	$451	$796	$564	$579	$206	$393	$587	$644
Property Taxes	40	62	27	41	27	49	40	28	42	62
Other Taxes	26	38	26	**	30	21	46	15	38	28
Property Insurance	70	44	95	77	72	59	100	71	65	100
Interest	123	129	101	221	120	184	29	41	174	240
Depreciation	302	370	207	474	231	367	194	161	338	363

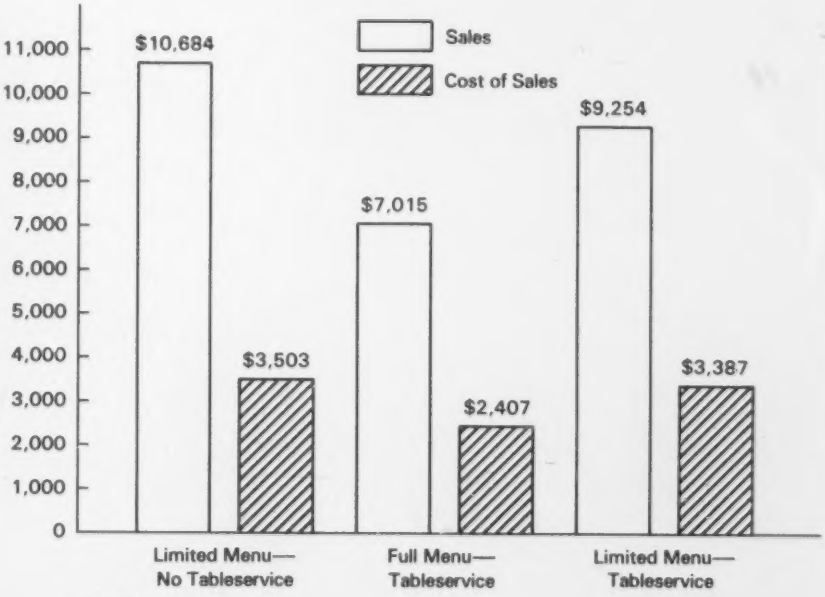
*All amounts are medians.
**Insufficient response.

CHART 2
Sales vs. Cost of Sales*
Amount Per Seat—Net Profit vs. Net Loss



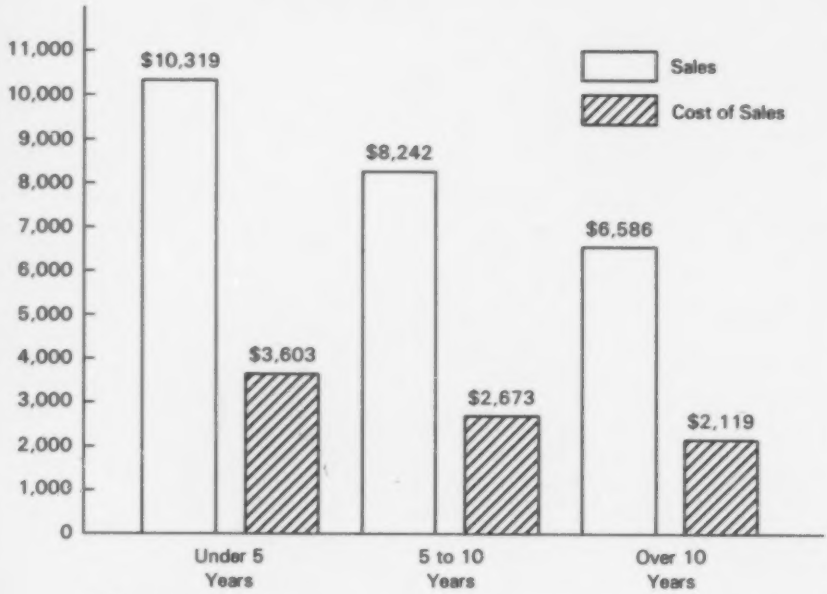
*All amounts are medians.

CHART 3
Sales vs. Cost of Sales*
Amount Per Seat—Type of Restaurant



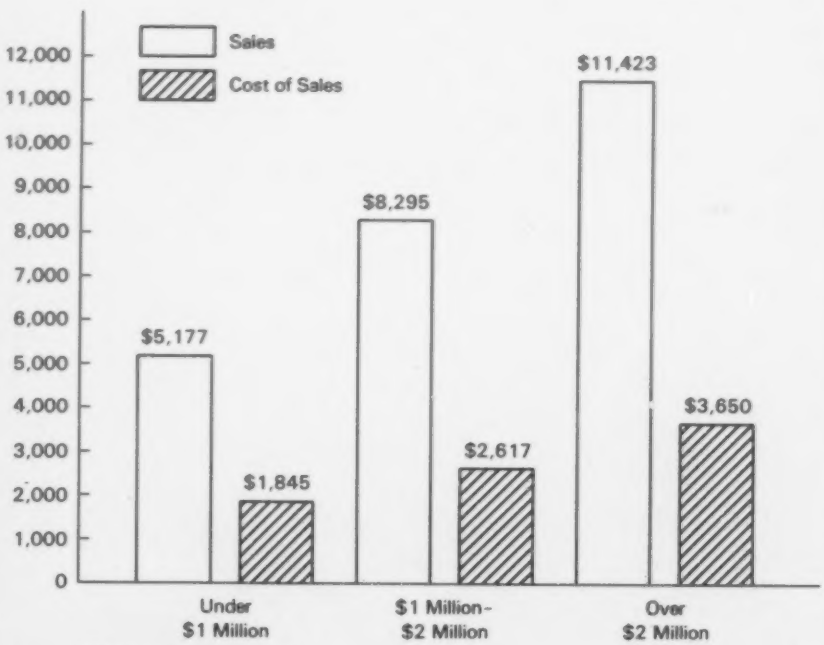
*All amounts are medians.

CHART 4
Sales vs. Cost of Sales*
Amount Per Seat—Age of Restaurant



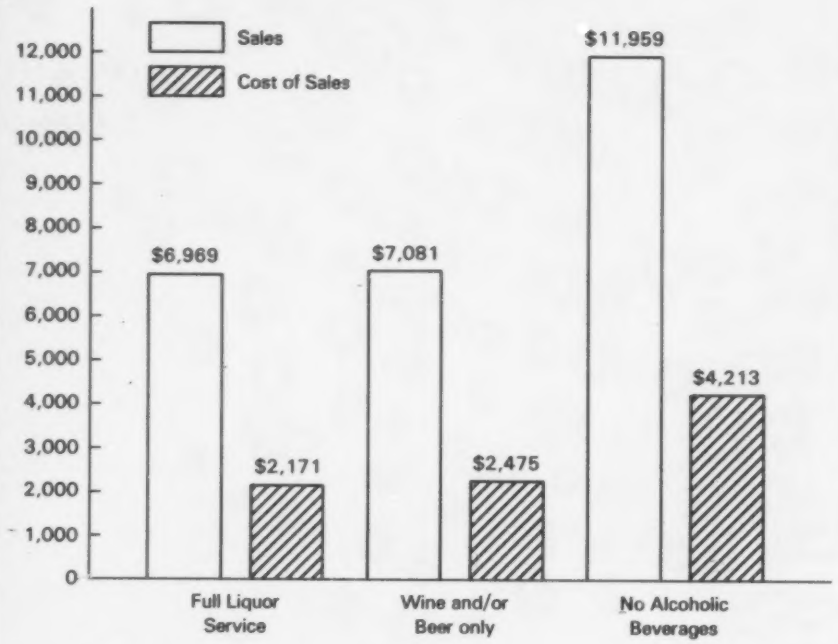
*All amounts are medians.

CHART 5
Sales vs. Cost of Sales*
Amount Per Seat—Sales Volume



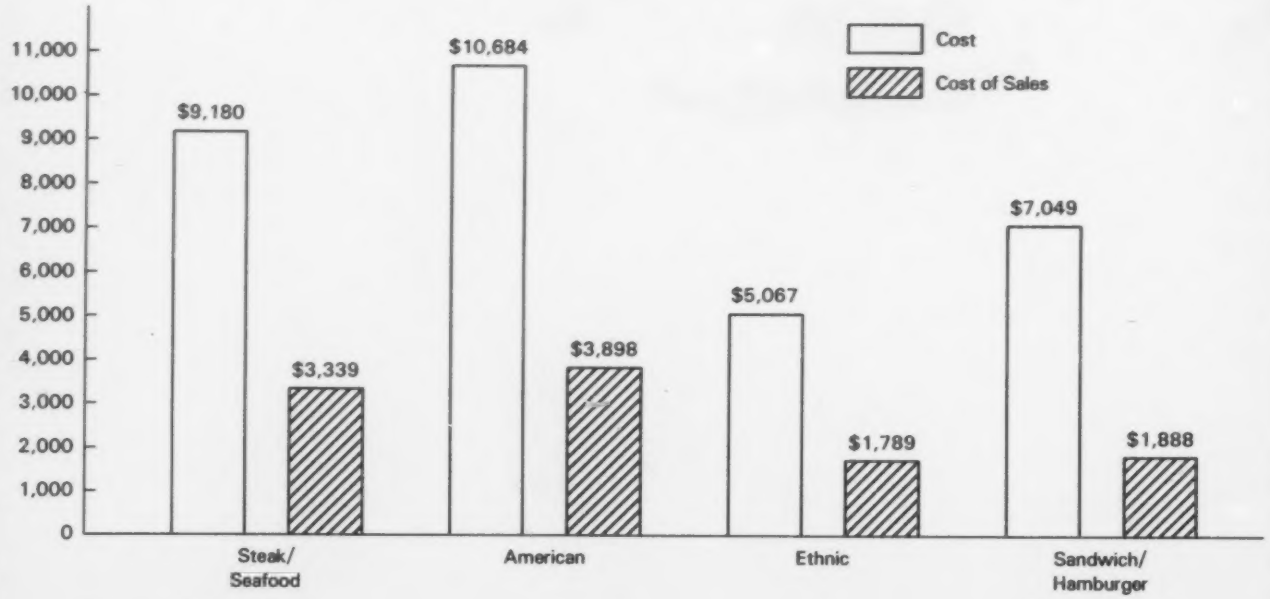
*All amounts are medians.

CHART 6
Sales vs. Cost of Sales*
Amount Per Seat—Beverages Served



*All amounts are medians.

CHART 7
Cost vs. Cost of Sales*
Amount Per Seat—Menu Theme



*All amounts are medians.

Exhibit 10
Ratio to Total Sales and Amount Per Seat
All Restaurants*

	Ratio to Total Sales			Amount Per Seat		
	California			California		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Sales						
Food	72.1%	79.9%	92.8%	$3,257	$6,667	$10,706
Beverage	15.1	23.6	29.6	544	1,340	3,407
Total Sales	100.0	100.0	100.0	4,596	8,268	11,989
Cost of Sales						
Food	31.5	34.7	38.5	1,263	2,406	3,939
Beverage	21.7	25.2	30.1	124	291	718
Total Cost of Sales	29.7	32.6	36.8	1,643	2,631	4,242
Total Gross Profit	63.2	67.4	70.3	3,106	5,798	8,257
Other Income	0.1	0.5	1.4	12	38	108
Total Income	63.5	68.2	72.0	3,198	5,859	8,330
Controllable Expenses						
Payroll	22.0	26.1	33.0	1,317	1,946	3,158
Employee Benefits	2.8	4.6	6.9	197	331	565
Direct Operating Expenses	4.2	5.8	7.8	286	444	720
Music & Entertainment	0.1	0.6	2.6	6	29	132
Advertising & Promotion	0.6	1.8	4.0	39	136	425
Utilities	2.0	2.7	3.4	157	224	333
Administrative & General	1.1	3.9	7.2	87	280	688
Repairs & Maintenance	1.1	1.8	2.5	84	160	240
Total Controllable Expenses	41.9	50.2	58.0	2,865	4,127	6,045
Income Before Occupation Costs	10.1	18.0	25.7	628	1,700	2,743
Occupation Costs						
Rent	4.4	5.9	8.1	336	543	817
Property Taxes	0.2	0.5	1.1	22	40	79
Other Taxes	0.1	0.3	0.5	9	26	62
Property Insurance	0.5	0.9	1.6	42	70	136
Total Occupation Costs	5.4	6.7	9.2	383	670	932
Income Before Interest & Depreciation	4.4	10.8	17.5	375	1,065	1,947
Interest	0.6	1.5	3.4	32	123	278
Depreciation	1.8	3.0	4.6	133	302	468
Restaurant Profit	0.7%	7.3%	12.9%	$ 50	$ 727	$ 1,524

*All figures are medians and do not necessarily add to totals shown. Food and beverage ratios are based on individual department sales.

Exhibit 11
Ratio to Total Sales and Amount Per Seat By Net Income Differential*

	Ratio to Total Sales		Amount Per Seat	
	Net Profit	Net Loss	Net Profit	Net Loss
Sales				
Food	85.4%	77.2%	$ 9,164	$4,760
Beverage	24.1	24.2	1,888	1,207
Total Sales	100.0	100.0	10,641	5,952
Cost of Sales				
Food	35.4	34.1	3,173	1,565
Beverage	25.2	26.5	360	420
Total Cost of Sales	33.3	32.5	3,507	2,393
Gross Profit	66.7	67.5	6,728	4,448
Other Income	0.4	0.6	31	26
Total Income	67.8	67.6	6,742	5,262
Controllable Expenses				
Payroll	23.7	32.3	2,305	2,153
Employee Benefits	3.5	6.0	347	368
Direct Operating Expenses	5.2	6.8	527	575
Music & Entertainment	0.1	0.8	9	59
Advertising & Promotion	1.9	3.1	154	121
Utilities	2.6	3.2	261	215
Administrative & General	3.4	5.2	280	372
Repairs & Maintenance	1.8	1.6	176	165
Total Controllable Expenses	46.4	62.3	4,563	4,464
Income Before Occupation Costs	22.7	6.2	2,103	332
Occupation Costs				
Rent	5.6	6.1	586	408
Property Taxes	0.5	0.9	38	47
Other Taxes	0.3	0.3	25	27
Property Insurance	0.8	1.3	64	108
Total Occupation Costs	6.6	7.9	723	525
Income Before Interest & Depreciation	14.8	(1.9)	1,431	(22)
Interest	1.2	2.1	123	98
Depreciation	2.7	4.1	336	300
Restaurant Profit	10.7%	(7.1)%	$ 1,107	$ (353)

*All ratios are based as a percent of total sales except food and beverage costs which are based on their respective sales.

Exhibit 12
Ratio to Total Sales and Amount Per Seat By Age of Restaurant*

	Ratio to Total Sales			Amount Per Seat		
	Under 5 Years	5 to 10 Years	Over 10 Years	Under 5 Years	5 to 10 Years	Over 10 Years
Sales						
Food	87.0%	82.5%	75.0%	$ 9,254	$7,123	$4,432
Beverage	20.5	22.8	25.5	1,413	1,314	1,207
Total Sales	100.0	100.0	100.0	10,319	8,242	6,586
Cost of Sales						
Food	36.0	35.6	33.8	3,349	2,504	1,808
Beverage	28.2	25.6	23.3	364	419	240
Total Cost of Sales	36.0	34.4	32.1	3,603	2,673	2,119
Gross Profit	64.0	65.6	67.9	6,213	5,840	4,356
Other Income	0.5	0.6	0.8	41	20	43
Total Income	64.4	66.5	68.6	6,237	5,851	4,533
Controllable Expenses						
Payroll	23.2	25.5	26.2	2,263	1,864	1,781
Employee Benefits	3.7	4.2	5.7	326	477	301
Direct Operating Expenses	6.8	6.1	5.8	657	375	360
Music & Entertainment	0.2	0.2	1.2	19	32	42
Advertising & Promotion	2.2	3.1	1.5	192	202	99
Utilities	2.9	2.4	2.9	248	212	215
Administrative & General	2.1	4.1	4.4	231	331	368
Repairs & Maintenance	2.1	1.4	1.9	201	128	146
Total Controllable Expenses	47.0	48.5	51.4	4,286	4,472	3,860
Income Before Occupation Costs	23.2	17.6	18.0	1,961	1,557	1,342
Occupation Costs						
Rent	6.9	5.0	5.9	587	511	488
Property Taxes	0.7	0.6	0.5	52	49	27
Other Taxes	0.5	0.2	0.3	61	21	26
Property Insurance	0.8	0.8	1.1	77	45	71
Total Occupation Costs	7.6	6.2	6.5	805	573	630
Income Before Interest & Depreciation	14.4	11.8	11.2	1,202	671	864
Interest	2.2	1.5	1.4	207	77	117
Depreciation	4.1	2.6	2.6	424	187	186
Restaurant Profit	9.4%	6.7%	8.7%	$ 830	$ 558	$ 657

*All amounts are medians and do not necessarily add to totals shown. Food and Beverage ratios are based on individual department sales.

Exhibit 13
Ratio to Total Sales and Amount Per Seat By Sales Volume*

	Ratio to Total Sales			Amount Per Seat		
	Under $1 Million	$1 Million–$2 Million	Over $2 Million	Under $1 Million	$1 Million–$2 Million	Over $2 Million
Sales						
Food	88.1%	81.8%	76.1%	$4,144	$7,072	$ 8,388
Beverage	24.1	21.2	23.9	606	1,348	2,990
Total Sales	100.0	100.0	100.0	5,177	8,295	11,423
Cost of Sales						
Food	36.4	33.0	34.4	1,565	2,438	2,943
Beverage	30.6	24.2	22.7	200	273	652
Total Cost of Sales	35.5	31.0	31.4	1,845	2,617	3,650
Gross Profit	64.5	69.0	68.6	3,446	5,755	8,222
Other Income	0.6	0.4	0.5	25	31	80
Total Income	65.1	69.8	68.9	3,446	6,123	8,250
Controllable Expenses						
Payroll	27.7	26.2	25.0	1,529	2,341	2,932
Employee Benefits	3.0	4.8	5.1	180	410	545
Direct Operating Expenses	6.8	4.8	5.2	370	389	595
Music & Entertainment	0.6	0.2	1.3	15	20	56
Advertising & Promotion	2.1	3.1	1.5	83	291	149
Utilities	3.3	2.7	2.0	161	234	274
Administrative & General	3.3	2.9	4.5	149	306	598
Repairs & Maintenance	1.8	1.7	2.0	119	176	232
Total Controllable Expenses	51.4	49.3	48.6	2,828	4,721	5,843
Income Before Occupation Costs	15.8	20.3	19.8	745	1,704	2,047
Occupation Costs						
Rent	5.7	6.2	5.7	393	587	644
Property Taxes	0.5	0.5	0.9	28	42	62
Other Taxes	0.3	0.3	0.2	15	38	28
Property Insurance	1.0	0.8	0.6	71	65	100
Total Occupation Costs	6.6	7.4	6.3	508	755	848
Income Before Interest & Depreciation	8.7	10.9	13.8	571	1,058	1,481
Interest	1.1	2.2	1.7	41	174	240
Depreciation	2.8	3.3	3.0	161	338	363
Restaurant Profit	4.9%	8.1%	9.3%	$ 294	$ 714	$ 1,190

*All figures are medians and do not necessarily add to totals shown. Food and beverage ratios are based on individual department sales.

Exhibit 14
Ratio to Total Sales and Amount Per Seat By Beverages Served*

	Ratio to Total Sales			Amount Per Seat		
	Full Liquor Service	Wine and/or Beer Only	No Alcoholic Beverages	Full Liquor Service	Wine and/or Beer Only	No Alcoholic Beverages
Sales						
Food	74.7%	90.9%	100.0%	$5,154	$5,818	$11,959
Beverage	25.7	9.1	NA	1,483	424	NA
Total Sales	100.0	100.0	100.0	6,969	7,081	11,959
Cost of Sales						
Food	34.9	33.0	36.3	1,806	2,218	4,213
Beverage	23.4	30.4	NA	364	105	NA
Total Cost of Sales	31.4	34.6	36.3	2,171	2,475	4,213
Gross Profit	68.6	65.4	63.7	5,252	5,077	7,724
Other Income	0.8	0.5	**	46	24	**
Total Income	69.1	65.8	64.0	5,744	5,125	7,724
Controllable Expenses						
Payroll	27.8	23.7	21.5	2,132	1,634	2,777
Employee Benefits	5.7	3.4	2.8	395	291	404
Direct Operating Expenses	6.1	6.8	6.2	401	428	696
Music & Entertainment	1.5	0.1	0.1	59	6	7
Advertising & Promotion	1.8	2.4	1.9	136	154	94
Utilities	2.6	2.9	3.0	216	193	422
Administrative & General	4.2	6.3	0.7	389	329	95
Repairs & Maintenance	2.0	1.8	1.6	160	136	219
Total Controllable Expenses	52.1	48.3	36.9	4,842	3,424	4,519
Income Before Occupation Costs	16.7	17.6	30.1	1,334	1,621	3,423
Occupation Costs						
Rent	5.7	6.1	5.4	510	450	766
Property Taxes	0.8	0.4	0.5	47	26	62
Other Taxes	0.3	0.2	0.3	25	22	51
Property Insurance	1.2	0.8	0.3	95	64	29
Total Occupation Costs	6.6	6.7	6.2	718	558	805
Income Before Interest & Depreciation	10.9	10.3	23.7	824	781	2,983
Interest	2.2	0.6	**	174	84	**
Depreciation	3.0	2.6	3.3	269	198	487
Restaurant Profit	6.9%	7.3%	19.2%	$ 534	$ 549	$ 2,589

*All figures are medians and do not necessarily add to totals shown. Food and beverage ratios are based on individual department sales.
**Insufficient number of restaurants reporting data.
NA-Not applicable.

Exhibit 15
Ratio to Total Sales and Amount Per Seat By Type of Restaurant*

	Ratio to Total Sales			Amount Per Seat		
	Limited Menu—No Tableservice	Full Menu—Tableservice	Limited Menu—Tableservice	Limited Menu—No Tableservice	Full Menu—Tableservice	Limited Menu—Tableservice
Sales						
Food	100.0%	75.0%	100.0%	$10,508	$4,918	$9,354
Beverage	7.3	25.3	**	416	1,413	**
Total Sales	100.0	100.0	100.0	10,684	7,015	9,254
Cost of Sales						
Food	32.6	35.2	36.0	3,387	1,943	3,711
Beverage	28.2	24.1	**	105	391	**
Total Cost of Sales	32.6	33.1	36.0	3,502	2,407	3,387
Total Gross Profit	67.4	66.9	64.0	6,176	4,657	5,899
Other Income	1.0	0.6	0.6	90	31	52
Total Income	68.7	67.8	64.1	6,231	4,873	5,899
Controllable Expenses						
Payroll	20.2	27.8	21.7	1,891	2,017	1,941
Employee Benefits	4.0	5.6	2.8	309	371	261
Direct Operating Expenses	4.4	6.2	6.9	374	430	676
Music & Entertainment	N	1.0	**	7	51	**
Advertising & Promotion	4.5	1.5	1.0	532	97	58
Utilities	3.0	2.6	3.2	316	214	338
Administrative & General	1.0	4.3	1.6	95	389	144
Repairs & Maintenance	1.6	1.9	1.7	175	162	177
Total Controllable Expenses	37.9	51.9	40.1	3,816	4,761	3,741
Income Before Occupation Costs	27.9	14.6	24.9	2,600	1,127	2,269
Occupation Costs						
Rent	6.9	5.8	6.0	730	451	796
Property Taxes	0.8	0.4	0.4	62	27	41
Other Taxes	0.3	0.3	**	38	26	**
Property Insurance	0.6	1.2	1.0	44	95	77
Total Occupation Costs	8.2	6.5	7.3	766	623	852
Income Before Interest & Depreciation	19.8	7.9	17.6	1,826	554	1,509
Interest	1.4	1.4	3.7	129	101	**
Depreciation	3.4	2.8	4.6	370	207	474
Restaurant Profit	12.8%	4.8%	10.5%	$ 1,354	$ 392	$1,011

*All figures are medians and do not necessarily add to totals shown. Food and beverage ratios are based on individual dept sales.
**Insufficient number of restaurants reporting.
N—Negligible.

Exhibit 16

Statement of Income and Expenses—Ratio to Total Sales
By Menu Theme*

	Menu Theme			
	Steak/Seafood	Ethnic	American	Sandwich/Hamburger
Sales				
Food	75.0%	75.1%	99.8%	92.6%
Beverage	25.0	27.6	23.8	7.6
Total Sales	100.0	100.0	100.0	100.0
Cost of Sales				
Food	37.2	33.3	36.3	26.4
Beverage	23.8	24.6	23.7	25.7
Total Cost of Sales	35.6	32.1	36.0	26.1
Gross Profit	64.4	67.9	64.0	73.9
Other Income	0.2	0.8	0.9	0.8
Total Income	64.6	69.5	64.0	74.5
Controllable Expenses				
Payroll	25.1	28.7	23.1	22.2
Employee Benefits	3.4	5.9	3.0	4.5
Direct Operating Expenses	6.2	5.8	6.8	4.2
Music & Entertainment	1.8	1.0	0.1	N
Advertising & Promotion	2.0	1.6	0.8	4.1
Utilities	2.2	2.6	3.3	2.9
Administrative & General	4.3	4.0	1.5	6.3
Repairs & Maintenance	1.9	1.5	1.6	1.9
Total Controllable Expenses	47.9	55.3	41.0	49.3
Income Before Occupation Costs	18.0	15.5	24.7	25.1
Occupation Costs				
Rent	5.0	5.8	5.9	6.8
Property Taxes	0.6	0.6	0.5	0.7
Other Taxes	0.4	0.2	0.3	0.2
Property Insurance	1.1	0.8	1.1	0.7
Total Occupation Costs	6.3	6.2	6.5	8.4
Income Before Interest & Depreciation	11.2	12.6	16.8	14.4
Interest	1.4	1.5	1.2	1.3
Depreciation	2.8	3.0	3.3	4.5
Restaurant Profit	8.7%	6.4%	12.8%	9.0%

*All figures are medians and do not necessarily add to totals shown. Food and Beverage ratios are based on individual department sales.
N—Negligible.

Exhibit 17
Statement of Income and Expenses—Amount Per Seat By Menu Theme*

	Menu Theme			
	Steak/Seafood	Ethnic	American	Sandwich/ Hamburgers
Sales				
Food	$6,861	$3,878	$ 9,606	$6,624
Beverage	1,780	889	1,331	699
Total Sales	9,180	5,067	10,684	7,049
Cost of Sales				
Food	2,757	1,437	3,898	1,782
Beverage	413	282	320	193
Total Cost of Sales	3,339	1,789	3,898	1,888
Gross Profit	5,755	3,895	6,651	5,237
Other Income	19	77	138	75
Total Income	5,851	3,961	6,651	5,270
Controllable Expenses				
Payroll	2,287	1,888	2,035	1,418
Employee Benefits	293	311	360	322
Direct Operating Expenses	517	307	711	346
Music & Entertainment	126	31	10	4
Advertising & Promotion	202	73	42	342
Utilities	217	187	401	240
Administrative & General	328	276	164	333
Repairs & Maintenance	141	127	192	175
Total Controllable Expenses	4,782	3,819	4,028	3,493
Income Before Occupation Costs	1,646	745	2,441	1,805
Occupation Costs				
Rent	421	482	863	587
Property Taxes	35	27	58	52
Other Taxes	17	23	36	17
Property Insurance	92	46	93	57
Total Occupation Costs	623	516	805	723
Income Before Interest & Depreciation	917	530	1,818	1,195
Interest	172	123	110	113
Depreciation	260	217	499	340
Restaurant Profit	$ 655	$ 288	$ 1,295	$ 774

*All figures are medians and do not necessarily add to totals shown. Food and Beverage ratios are based on individual department sales.

UNDERSTANDING MEDIANS & MEANS

The annual studies written by the Research Division of Laventhol & Horwath utilize medians for the majority of their reported results. This article will give an in-depth explanation on medians and quartiles, as well as briefly discuss means, along with practical uses of both.

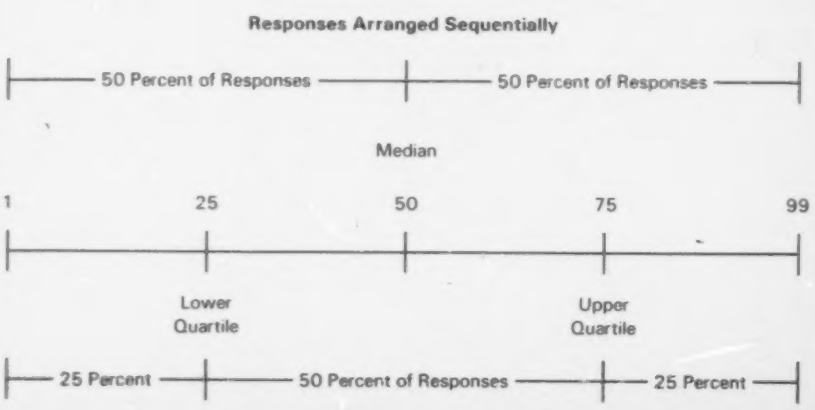
A median is defined as the middle value of all amounts calculated for a specific line item. For example, if we received nine responses for number of full-time employees—8,4,2,6,9,7,5,1,3—these numbers would be arranged sequentially: 1,2,3,4,5,6,7,8,9 and the middle value "5" would be the median since 50 percent of the responses received are below the value and 50 percent are above.

In conjunction with medians, lower and upper quartiles are used to give a further description to the sample results. Occasionally we use means to report data, but we believe the median is the most appropriate method to report our results. This is because the median gives less biased results. Medians keep results from being skewed by one or two respondents. For example, if a few responding restaurants incurred large operating losses, these losses would be divided evenly among all restaurants in the sample (when using mean calculations) and bring down the average net profit of the entire group, which for the most part may have had respectable profits.

Quartiles divide the responses into four equal parts, with the median still being the middle value. The *lower quartile* is the value that separates the lowest 25 percent of the responses from the rest of the sample when arranged sequentially, while the *upper quartile* defines the boundaries of the upper 25 percent of the responses from the lower 75 percent. Stated another way, 50 percent of all responses fall between the lower and upper quartiles. For example, if we receive 99 responses for a specific item and the responses (conveniently) were numbered 1 through 99, the median (or middle value) would be 50, the lower quartile would be 25 (25 percent of the responses would be below 25), and the upper quartile would be 75 (25 percent of the responses would be above 75). Fifty percent (or half) of the responses would fall between the lower and upper quartiles. (See chart below.)

While reading this report, it should become evident that columns do not total when medians are involved. The reason behind this is each line item is analyzed separately! In the accompanying table (page 28) when all amounts are arranged sequentially, the median net profit amount per seat for total sales is $5,197. This figure is based on the 431 restaurants* that gave us information for this specific line item. The median net profit amounts per seat for total food and beverage sales were $4,163 and $1,091 respectively. These two amounts were analyzed on a sample of 400 restaurants that gave us separate food sales and beverage sales figures (31 restaurants provided us with only the total for food and beverage sales, not separate food and beverage sales figures). Different sample sizes is one reason why figures do not add to the totals shown.

There is another major reason that columns do not total. When using medians, it is important to remember that the median food sales, the median beverage sales and the median total sales figures reported probably represent the results for three separate restaurants, even though the sample size of each may be equal. This also holds true for lower and upper quartile figures.



UNDERSTANDING MEDIANS & MEANS

Table I

	Amount Per Seat		
	Net Profit		
	Lower Quartile	Median	Upper Quartile
Sales			
Food	$2,787	$4,163	$6,246
Beverage	555	1,091	2,254
Total Sales	3,381	5,197	7,788
Cost of Sales			
Food	1,030	1,499	2,331
Beverage	139	306	587
Total Cost of Sales	1,154	1,877	2,637
Gross Profit	2,110	3,313	5,154
Other Income	13	41	113
Total Income	$2,213	$3,445	$5,362

Table II

Restaurant Seating

Restaurant	Number of Seats	Average Daily Seat Turnover	Number Seats Occupied Daily (Column 1 x Column 2)
1	60	3.80	228
2	80	4.20	336
3	100	3.70	370
4	120	2.90	348
5	140	2.00	280
6	160	1.70	272
7	180	1.90	342
8	500	1.20	600
9	600	1.00	600
Total	1,940	22.40	3,376
Median	140	2.00	342[1]
Average (rounded)	216	2.49	538

[1]The median number of seats occupied daily is 280 (the middle value of column 3). Notice that this is not equal to the product of the median number of seats multiplied by the median average daily seat turnover, which is 280. It is incorrect to use medians in calculations, such as addition or multiplication.

The terms MEAN, AVERAGE, and ARITHMETIC MEAN are all synonymous. A mean is calculated by summing the results and dividing by the number of responses. In Table II, the sum of the number of restaurant seats is 1,940. Divide this by the nine respondents and the mean (average) is 216 seats per restaurant. By comparison, the median number of seats is 140. It is obvious that the average is skewed by the two restaurants with 500 and 600 seats.

Table II shows a group of restaurants that responded to number of seats available. They also provided the number of guests served, so the average daily seat turnover was calculated. The average number of seats for this sample is approximately 216 (1,940 divided by 9) and the median number of seats is 140 (the middle value of all respondents when responses are arranged sequentially). The average seat turnover is 2.49 and the median is 2.00. With this information, the mean and median for the number of seats occupied daily can be calculated.

- The median number of seats occupied daily is 280 (the middle value of column 3).
- To compute the average number of seats occupied per day, multiply the average number of seats per restaurant of 216 by the average daily seat turnover of 2.49. This gives the average daily seat turnover of approximately 538. The mean number of seats is greatly influenced by the two large properties with 500 and 600 seats.

As shown, median and means both have their uses, with medians not being affected by one or two responses that vary significantly from the rest of the sample. This is the main reason the majority of our studies report the date as medians.

**The number used for sample sizes are representative and are not actual sample sizes.*

ANALYZE YOUR OPERATION

A periodic analysis of your restaurant's financial performance may provide some early warning signs of potential problems. Food costs or payroll may be inching up month by month Some controllable expenses could be increasing while others are decreasing.

Day-to-day changes in your costs may be small and could go unnoticed. However, examination on a regular basis could uncover undesirable trends, allowing you to take corrective action and control situations that could lead to a crisis. That is the key to effective management.

To help you toward better management, we have included on the following page a worksheet designed to help you analyze how well your restaurant is performing in comparison with the rest of the industry. Follow these simple instructions for completing the worksheet:

1. Enter your financial data in the first column.

2. Compute the percentages for column 2 by dividing the amounts by total sales. (Note--Where food and beverage sales are broken down separately, compute percentage of food cost by dividing cost of food by food sales; for the beverage cost percentage, divide cost of beverage sales by beverage sales.)

3. Calculate the supplementary statistics in accordance with the formulas given on the worksheet.

4. List the appropriate comparative percentages or ratios from this report in column 3.

5. Compute the variances by dividing the difference between the figures in column 2 and column 3 by the figures in column 3. Multiply the result by 100 to express the variance as a percentage.

6. If the variance is greater than plus or minus 10 percent, further analysis should be made to determine the reason for that variance.

WORKSHEET

Complete and Compare
Statement of Income and Expenses

	Your Figures (Dollars)	Your Figures (% of Sales)	Restaurant Industry Report	Variance + or −
Sales				
Food	$	%	%	
Beverage	$	%	%	
Total sales	$	%	%	
Cost of sales				
Food	$	%	%	
Beverages	$	%	%	
Total cost of sales	$	%	%	
Gross profit	$	%	%	
Other income	$	%	%	
Total income	$	%	%	
Controllable expenses				
Payroll	$	%	%	
Employee benefits	$	%	%	
Direct operating expenses	$	%	%	
Music and entertainment	$	%	%	
Advertising and promotion	$	%	%	
Utilities	$	%	%	
Administrative and general	$	%	%	
Repairs and maintenance	$	%	%	
Total controllable expenses	$	%	%	
Income before occupation costs	$	%	%	
Rent	$	%	%	
Property Taxes	$	%	%	
Other Taxes	$	%	%	
Property Insurance	$	%	%	
Income before interest and depreciation	$	%	%	
Interest	$	%	%	
Depreciation	$	%	%	
Restaurant Profit	$	%	%	

Supplemental Operating Information	Your Figures	Restaurant Report	Variance + or −
Sales per seat			
Food	$	$	
Beverage	$	$	
Total	$	$	
Average receipt per cover (total sales ÷ covers)	$	$	
Daily seat turnover (covers ÷ seats ÷ 365 days)	times	times	
Index of productivity [sales ÷ (payroll + benefits)]	times	times	

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A. U.S. Lodging Industry	$65	$150	August
B. Worldwide Hotel Industry	65	150	August
C. U.S. Economy/Limited-Service Lodging Industry	65	150	September
D. U.S. Resort Lodging Industry	50	120	September
E. All-Suite Lodging Industry	65	150	September
F. Texas Lodging Industry	50	120	September
G. Florida Lodging Industry	50	120	September
H. California Lodging Industry	50	120	September
I. California Restaurant Operations	50	120	September
J. The Industry Study 1987 (The Retirement Housing Industry)	90	220	November
K. Nursing Home Industry	80	200	November
L. Gaming Industry Financial Results	50	120	August

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